

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

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TO SECSTATE WASHDC 1621

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

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E.O. 11652: N/A

TAGS: EINV MY

SUBJ: SEMINAR ON INVESTMENT OPPORTUNITIES IN MALAYSIA

1. SUMMARY. GOM HELD INVESTMENTSEMINAR OCT 27-29 IN ATTEMPT TO ANSWER CHARGES REGARDING UNCERTAINTIES IN MALAYSIA'S INVESTMENT CLIMATE. ATTENDANCE WAS GOOD WITH ABOUT 250 FIRMS AND INSTITUTIONS (BOTH FROM WITHIN AND WITHOUT MALAYSIA) SENDING REPRESENTATIVES. IN IMPORTANT KEYNOTE SPEECH, PRIME MINISTER RAZAK CAREFULLY TICKED OFF GOM'S ANSWER TO MAJOR CONCERNS EXPRESSED BY CRITICS: RELATIONSHIP OF INDO-CHINA EVENTS TO MALAYSIA, INTERNAL SECURITY SITUATION, GOM'S DEVELOPMENT EMPHASIS ON MALAYS AT EXPENSE OF OTHER RACES, AND IMPORTANCE GOM ATTACHES TO FOREIGN PRIVATE INVESTMENT. HE ALSO MENTIONED PETROLEUM ISSUE AND STATED THAT RECENT PETROLEUM AMENDMENT ACT WOULD BE IMPLEMENTED SO AS TO SAFEGUARD PRIVATE INTERESTS IN PETROLEUM SECTOR AND THAT ACT WOULD NOT BE EXTENDED TO OTHER SECTORS. MINISTER OF TRADE AND INDUSTRY CLEARLY SPELT OUT GOM'S CONDITIONS FOR EXISTING AND FUTURE FOREIGN INVESTMENT. MINISTER

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OF HOME AFFAIRS DEALT WITH MALAYSIA'S ABILITY TO HANDLE INTERNAL SUBVERSION AND HER EFFORTS TO DEAL WITH EXTERNAL PROBLEMS. OTHER SPEAKERS HANDLED GOM POLICIES EFFECTING FOREIGN INVESTMENT IN AREAS OF MALAYSIAN MONETARY POLICY, DEVELOPMENT PLANS, EMPLOYMENT PROGRAMS, AND DEVELOPMENT OF MALAYSIA'S NATURAL RESOURCES.

SEMINAR

PLAYED A USEFUL ROLE IN SPELLING OUT "RULES OF THE GAME" SO THAT ALL COULD CLEARLY UNDERSTAND GOM'S POSITION. IMPORTANT FACTOR TO EMERGE IS GOM WILLINGNESS, WITHIN CERTAIN BOUNDARIES, TO NEGOTIATE THESE ISSUES WITH FOREIGN FIRMS. QUESTION REMAINS, HOWEVER, AS TO WHETHER THESE POLICIES WILL SUCCEED IN ATTRACTING FOREIGN INVESTMENT MALAYSIA REQUIRES. END SUMMARY.

2. IN ATTEMPT TO ANSWER CRITICISM BY FOREIGN INVESTORS AND INTERNATIONAL PRESS REGARDING UNCERTAINTIES IN MALAYSIA'S INVESTMENT CLIMATE, ON OCT 27-29 GOM HELD HIGH-POWERED SEMINAR ON INVESTMENT IN MALAYSIA. SPEAKERS INCLUDED MANY HIGH-LEVEL GOM OFFICIALS, INCLUDING PM RAZAK, DEALING WITH INVESTMENT QUESTION. ABOUT 250 PARTICIPANTS ATTENDED AMONG WHICH WERE 71 BANKERS AND 11 FOREIGN GOVERNMENT REPS (INCLUDING YUGOSLAV COMMERCIAL ATTACHE).

3. PM OPENED SEMINAR WITH IMPORTANT POLICY SPEECH WHICH DEALT WITH VIRTUALLY EVERY AREA OF CONCERN TO FOREIGN INVESTORS (PLEASE SEE SEPTTEL).

4. IN SECOND IMPORTANT SPEECH, MINISTER OF TRADE AND INDUSTRY HAMZAH BIN DATUK SAMAH CLEARLY SPELLED OUT GOM'S POSITION ON FOREIGN INVESTMENT IN MANUFACTURING SECTOR. THROUGH MECHANISM OF RECENTLY PASSED INDUSTRIAL COORDINATION ACT (WHICH FOR FIRST TIME GIVES GOM LEGAL BASIS TO DEAL WITH ENTIRE MANUFACTURING SECTOR), GOM HAS LAID OUT CONDITIONS FOR FOREIGN AND DOMESTIC INVESTORS TO RECEIVE ONE-TIME MANUFACTURING LICENSE. THESE CONDITIONS ARE ESSENTIALLY SAME AS THOSE IMPOSED ON INVESTORS WHO HAVE SOUGHT INVESTMENT INCENTIVES SINCE JANUARY 1, 1972, AND RELATE TO EQUITY STRUCTURE, EMPLOYMENT GOALS, RULES FOR EXPANSION, PRICES TO BE CHARGED, LOCATION OF PLANTS, CHANNELS OF DISTRIBUTION, USE OF PROFESSIONAL SERVICES, ETC. TO THIS END, ALL EXISTING FOREIGN AND DOMESTIC FIRMS HAVE BEEN DIVIDED INTO THREE CATEGORIES:

A) CATEGORY I (EXISTING FIRMS WITHOUT MINISTRY OF TRADE AND INDUSTRY (MTI) APPROVAL) WHICH MUST SUBMIT, WITH LICENSE APPLICATION, PLANS FOR RESTRUCTURING OF EQUITY BY 1990 TO LIMITED OFFICIAL USE

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MEET NEP GOALS FOR FOREIGN FIRMS OF 30 PERCENT FOREIGN, 30 PERCENT BUMIPUTRA (INDIGENOUS MALAY) AND 40 PERCENT OTHER MALAYSIAN EQUITY OWNERSHIP. IN CASE OF DOMESTIC FIRMS, ONLY 30 PERCENT EQUITY MUST BE DIVESTED TO BUMIPUTRAS. FIRMS IN THIS CATEGORY WILL ALSO HAVE ALL CONDITIONS MENTIONED ABOVE APPLIED TO THEM.

B) CATEGORY II (EXISTING FIRMS WITH MTI APPROVAL) FIRMS FALL INTO TWO SUB-CATEGORIES. FOR THOSE APPROVED SINCE JANUARY 1, 1972, NO NEW CONDITIONS WILL BE APPLIED. FOR THOSE APPROVED PRIOR TO THAT DATE, NEW CONDITIONS THAT WERE NOT APPLIED AT TIME OF THEIR APPROVAL WILL BE APPLIED.

C) CATEGORY III (APPROVED FIRMS EXPORTING 80-100 PERCENT OF PRODUCT) FIRMS WILL NOT HAVE TO CHANGE EQUITY STRUCTURE, EVEN IF 100 PERCENT FOREIGN OWNED. EXPANSIONS OF THESE FIRMS WILL GENERALLY BE SUBJECT TO AT LEAST 30 PERCENT BUMIPUTRA EQUITY CONDITIONS, ALTHOUGH ON EXCEPTIONAL BASIS MINISTER CAN APPROVE SAME EQUITY FOR EXPANSION AS APPLICABLE TO EXISTING INVESTMENT.

CATEGORY I FIRMS INCLUDE 90 PERCENT OF ALL MANUFACTURERS IN MALAYSIA. REMAINING 10 PERCENT FALL IN CATEGORIES II AND III.

5. MINISTER HAMZAH ALSO MORE CLEARLY SPELLED OUT EQUITY REQUIREMENTS FOR NEW FOREIGN FIRMS DEPENDING ON MARKETS AND RESOURCE UTILIZATION. FOR FIRMS DEPENDING ENTIRELY ON SMALL MALAYSIAN DOMESTIC MARKET, ONLY 30 PERCENT FOREIGN OWNERSHIP WILL BE ALLOWED AND THEN ONLY IN CASE WHERE TECHNOLOGY IS NOT AVAILABLE IN MALAYSIA. FOR EXPORT-ORIENTED INDUSTRIES (80-100 PERCENT EXPORTED) USING MOSTLY IMPORTED COMPONENTS AND PARTS, FOREIGN FIRMS MAY HAVE 51-70 PERCENT MAJORITY OWNERSHIP DEPENDING ON NATURE OF PRODUCT. IN EXCEPTIONAL CASES, MINISTER MAY AUTHORIZE 100 PERCENT FOREIGN OWNERSHIP. EXPORT-ORIENTED FIRMS USING NON-DEPLETING NATURAL RESOURCES (RUBBER, PALM OIL, TAPIOCA, ETC.) MAY HOLD BETWEEN 30-55 PERCENT OF EQUITY DEPENDING ON TYPE OF PROJECT, LOCATION, TECHNOLOGY, ETC. EXPORT-ORIENTED FIRMS USING DEPLETING NATURAL RESOURCES (TIN, PETROLEUM, OTHER MINERALS) MAY INITIALLY BE ALLOWED TO HOLD BETWEEN 35-45 PERCENT OWNERSHIP. OVER AGREED TERM, THIS MUST BE REDUCED TO 30 PERCENT.

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6. MINISTER HAMZAH EXPLAINED GOM'S FLEXIBLE ATTITUDE TOWARD EMPLOYMENT OF EXPATRIATE PERSONNEL IN EXPORT-ORIENTED AND OTHER PRIORITY INDUSTRIES (HIGH TECHNOLOGY, LABOR INTENSIVE, RESOURCE BASED, AGRO BASED, TOURISM AND THOSE ABLE TO INTEGRATE WITH AND IMPROVE EXISTING INDUSTRIES). IN RESPONSE TO SUBSTANTIAL CRITICISM OF GOM'S RESTRICTIVE WORK PERMIT AND BUSINESS VISA REQUIREMENTS, HAMZAH ANNOUNCED THAT CABINET HAD APPOINTED THREE-MAN PANEL CONSISTING OF HIMSELF, MINISTER OF LABOR AND MINISTER OF HOME AFFAIRS AS COMMITTEE TO REVIEW APPLICATIONS TURNED DOWN BY IMMIGRATION. HE ALSO ANNOUNCED THAT GOM WOULD CONDUCT REVIEW OF IMMIGRATION POLICIES TO IMPROVE FLEXIBILITY. FYI BOTH THESE ANNOUNCEMENTS WERE MADE IN PRESENCE OF VISIBLY UNHAPPY DIRECTOR GENERAL OF IMMIGRATION WHOM HAMZAH TOOK GREAT DELIGHT IN NEEDLING DURING QUESTION AND ANSWER SESSIONS. END FYI.

7. MINISTER OF HOME AFFAIRS GHAZALI BIN SHAFIE POINTED OUT CHANGES IN SOUTHEAST ASIA IN RECENT MONTHS AND EXPLAINED GOM'S EXTERNAL EFFORTS (THROUGH ASEAN, ZONE OF PEACE, FREEDOM AND NEUTRALITY AND RECOGNITION OF NORTH VIETNAM) TO INFLUENCE SITUATION. LIMITED OFFICIAL USE

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REGARDING INTERNAL THREAT, GHAZALI MENTIONED EXPANSION OF SECURITY FORCES, REORGANIZATION OF POLICE AND ATTEMPTS TO BUILD "NATIONAL RESILIENCE" THROUGH NEP. HE ALSO MENTIONED THAT MISTAKES HAD BEEN MADE IN TERMS OF IMPLEMENTATION AND INTERPRETATION OF GOM'S GOALS. HE STATED THESE PERHAPS DUE TO LACK OF CLEAR THINKING, OVERZEALOUSNESS, COMMUNAL EMOTIONALISM, AND GREED OR CORRUPTION. HE PLEDGED GOM'S INTENTION TO DEAL WITH ALL THESE ISSUES IN BALANCED, MULTI-RACIAL CONTEXT. AFTER GIVING A REVIEW OF HISTORY AND ORGANIZATION OF MALAYSIA'S COMMUNIST PARTIES, GHAZALI EXPRESSED CONFIDENCE IN GOM ABILITY TO HANDLE INTERNAL SECURITY THREAT.

8. NUMBER OF OTHER IMPORTANT POINTS WERE ADDRESSED BY OTHER GOM OFFICIALS. DEPUTY MINISTER OF FINANCE CHONG HON NYAN POINTED OUT STRENGTH OF MALAYSIAN ECONOMY, CURRENCY AND BALANCE OF PAYMENTS.

HE STRESSED THAT GOM'S MONETARY POLICY, INCLUDING FREE MOVEMENT OF CAPITAL, WOULD CONTINUE TO BE FAVORABLE TO FOREIGN INVESTORS. ABDUL KHADIR BIN SHAMSUDDIN, GOM CHIEF SECRETARY, EMPHASIZED SCOPE FOR FOREIGN PRIVATE INVESTMENT IN THIRD FIVE-YEAR PLAN AND EXPLAINED GOM'S INTENTIONS TO FOCUS ON POVERTY IN ALL RACIAL GROUPS IN MALAYSIA. HE REITERATED GOM POLICY THAT RESTRUCTURING OF ECONOMY WOULD ONLY TAKE PLACE WITHIN FRAMEWORK OF GROWTH AND PLEDGED THAT GOM WOULD ONLY INTERVENE WHEN MARKET FORCES FAILED TO TAKE SUFFICIENT ACCOUNT OF NEP SOCIAL OBJECTIVES. LEE SAN CHOON, MINISTER OF LABOR, OUTLINED GOM VOCATIONAL AND UNIVERSITY TRAINING PROGRAMS AND OPINED THAT PRESENT SHORTAGE OF TRAINED PERSONNEL WOULD BE ELIMINATED BY 1980. AMAR HAJI ABDUL TAIB BIN MOHAMUD, MINISTER OF INFORMATION AND SPECIAL FUNCTIONS AND MINISTER OF GENERAL PLANNING AND SOCIO-ECONOMIC RESEARCH, STRESSED OPPORTUNITY FOR FOREIGN INVESTMENT TO PLAY IMPORTANT ROLE IN DEVELOPMENT OF MALAYSIA'S NATURAL RESOURCES (MINERALS, PETROLEUM AND TIMBER). HE STRESSED NECESSITY FOR INVESTMENTS IN THESE AREAS TO BENEFIT MALAYSIAN PEOPLE AND IMPORTANCE OF PROCESSING OF THESE MATERIALS INTO MANUFACTURED FORM. FINALLY, MOKHTAR BIN HAJI HASHIM, DEPUTY MINISTYER OF AGRICULTURE AND RURAL DEVELOPMENT, GAVE AN OUTLINE OF MALAYSIA'S AGRICULTURAL PROBLEMS AND GOM'S POLICIES AND ORGANIZATIONS DESIGNED TO RECTIFY THEM. IN THIS CONNECTION, HE POINTED OUT OPPORTUNITIES FOR FOREIGN FIRMS TO ENTER INTO JOINT VENTURES WITH GOM STATUTORY BODIES. HE OUTLINED INCENTIVES AVAILABLE TO FIRMS IN AGRO-BASED INDUSTRIES.

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9. COMMENT. SEMINAR PLAYED USEFUL ROLE IN ONGOING DIALOGUE REGARDING FOREIGN INVESTMENT IN MALAYSIA. RULES OF GAME ARE NOW CLEARLY SPELLED OUT. WHILE RULES MAY OR MAY NOT BE ACCEPTABLE, FIRMS NOW KNOW MORE CLEARLY WHERE THEY STAND. MAJOR EMPHASIS ON PRAGMATIC AND FLEXIBLE APPROACH BY MANY GOM SPEAKERS SUGGESTS THAT GOM HAS ESSENTIALLY STATED ITS MAXIMUM OPENING NEGOTIATING POSITION. THE GOM NOW EXPECTS THAT INDIVIDUAL FOREIGN INVESTORS WILL MAKE COUNTER OFFER WITH OUTCOME TO BE RESOLVED THROUGH BARGAINING PROCESS, AS HAS BEEN CASE WITH PAST GOM TREATMENT OF FOREIGN FIRMS NOT MEETING NEP EQUITY AND EMPLOYMENT GOALS. CLEARLY, FOREIGN FIRMS INTERESTED IN USING MALAYSIA AS BASE FOR MANUFACTURING EXPORTS WILL HAVE GREATEST ROOM FOR MANEUVER. AT OTHER EXTREME ARE LONG-ESTABLISHED FOREIGN FIRMS (SUCH AS JOHNSON AND JOHNSON) WHICH CONCENTRATE ON DOMESTIC MARKET. IN THOSE CASES, ONLY MINIMAL "FLEXIBILITY" CAN BE EXPECTED. QUESTION REMAINS, HOWEVER, AS TO WHETHER IMPLEMENTATION OF THESE POLICIES WILL SUCCEED IN ATTRACTING FOREIGN INVESTMENT MALAYSIA REQUIRES; PARTICULARLY IN LIGHT OF COMPETITION FOR FOREIGN INVESTMENT WHICH MALAYSIA FACES FROM SINGAPORE AND PHILIPPINES, AND, TO LESSER EXTENT, FROM INDONESIA, THAILAND, TAIWAN AND KOREA. END COMMENT.

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